

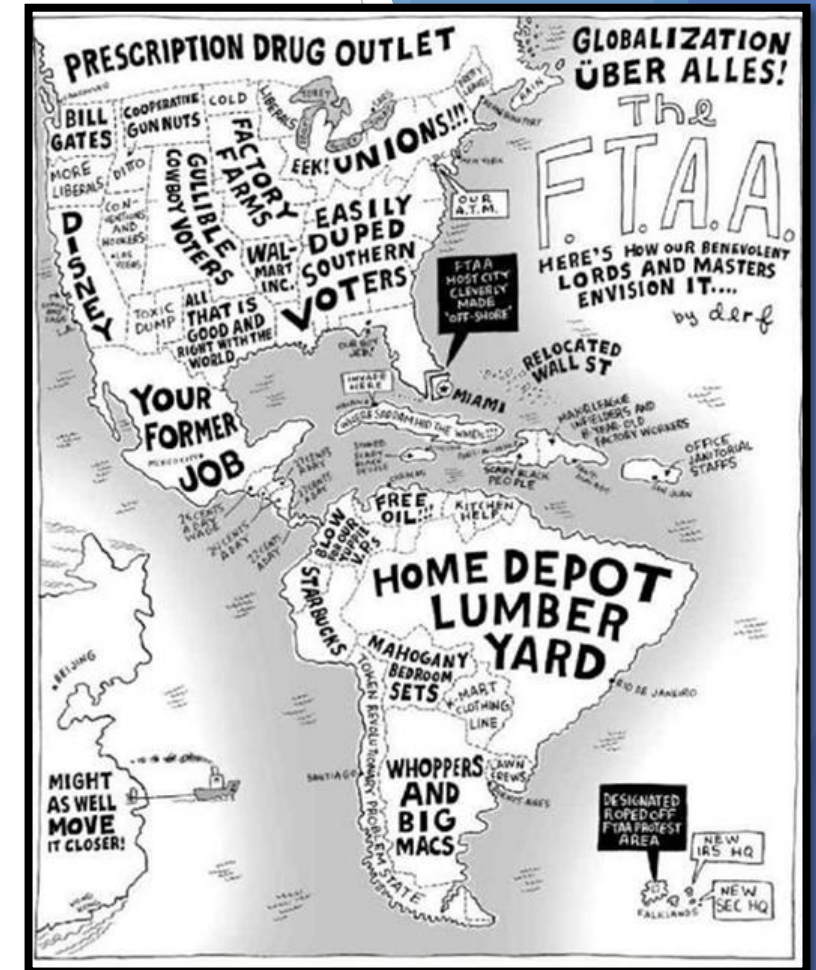
Globalization

What is Globalization

- ▶ Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology.

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- ▶ Local, regional, national, and continental societies are coming under increasing pressure (voluntarily and/or involuntarily) to integrate/assimilate into a larger global community.
 - ▶ Important questions arise:
 - ▶ What are the economic benefits/detriments of globalization?
 - ▶ What are its effects?

- ▶ Globalization is not new, though.
- ▶ For thousands of years, people—and, later, corporations—have been buying from and selling to each other at great distances.
- ▶ In fact, many of the features of the current wave of globalization are similar to those prevailing before the outbreak of the First World War in 1914.



- ▶ But policy and technological developments of the past few decades have spurred increases in cross-border trade, investment, and migration so large that many observers believe the world has entered a qualitatively new phase in its economic development.
- ▶ Since 1950, for example, the volume of world trade has increased by 20 times, and from just 1997 to 1999 flows of foreign investment nearly doubled, from \$468 billion to \$827 billion.
- ▶ Distinguishing this current wave of globalization from earlier ones, author Thomas Friedman has said that today globalization is “farther, faster, cheaper, and deeper.”

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- The background of the slide features abstract, overlapping geometric shapes in various shades of blue, ranging from light to dark, creating a modern and dynamic visual effect.
- ▶ This current wave of globalization has been driven by policies that have opened economies domestically and internationally.
 - ▶ In the years since the Second World War, and especially during the past two decades, many governments have adopted free-market economic systems, vastly increasing their own productive potential and creating a myriad of new opportunities for international trade and investment.

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- ▶ Governments also have negotiated dramatic reductions in barriers to commerce and have established international agreements to promote trade in goods, services, and investment i.e. NAFTA.
 - ▶ Taking advantage of new opportunities in foreign markets, corporations have built foreign factories and established production and marketing arrangements with foreign partners.
 - ▶ A defining feature of globalization, therefore, is an international industrial and financial business structure.

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- The background of the slide features an abstract design composed of various shades of blue. These shades are arranged in overlapping, angular, and triangular shapes that create a sense of depth and movement, particularly on the right side of the frame.
- ▶ Technology has been the other principal driver of globalization.
 - ▶ Advances in information technology, in particular, have dramatically transformed economic life.
 - ▶ Information technologies have given all sorts of individual economic actors—consumers, investors, businesses—valuable new tools for identifying and pursuing economic opportunities, including faster and more informed analyses of economic trends around the world, easy transfers of assets, and collaboration with far-flung partners.

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- ▶ Globalization is deeply controversial, however.
 - ▶ Proponents of globalization argue that it allows poor countries and their citizens to develop economically and raise their standards of living, while opponents of globalization claim that the creation of an unfettered international free market has benefited multinational corporations in the Western world at the expense of local enterprises, local cultures, and common people.

- ▶ Resistance to globalization has therefore taken shape both at a popular and at a governmental level as people and governments try to manage the flow of capital, labor, goods, and ideas that constitute the current wave of globalization.



Economics of Globalization

- ▶ Globalization has impacted nearly every aspect of modern life.
- ▶ Most economists agree that globalization provides a net benefit to individual economies around the world, by making markets more efficient, increasing competition, limiting military conflicts, and spreading wealth more equally around the world.
- ▶ However, the general public tends to assume that the costs associated with globalization outweigh the benefits, especially in the short-term, which has caused problems.

Benefits of Globalization

1. Foreign Direct Investment

- ▶ FDI tends to increase at a much greater rate than the growth in world trade, helping boost technology transfer, industrial restructuring, and the growth of global companies.

2. Technological Innovation

- ▶ Increased competition from globalization helps stimulate new technology development, particularly with the growth in FDI, which helps improve economic output by making processes more efficient.

3. Economies of Scale

- ▶ Globalization enables large companies to realize economies of scale that reduce costs and prices, which in turn supports further economic growth, although this can hurt many small businesses attempting to compete domestically.

Risks of Globalization

1. Interdependence

- ▶ Globalization leads to the interdependence between nations, which could cause regional or global instabilities if local economic fluctuations end up impacting a large number of countries relying on them.

2. National Sovereignty

- ▶ Some see the rise of nation-states, multinational or global firms and other international organizations as a threat to sovereignty.
- ▶ Ultimately, this could cause some leaders to become nationalistic.

3. Equity Distribution

- ▶ The benefits of globalization can be unfairly skewed towards rich nations or individuals, creating greater inequalities and leading to potential conflicts both nationally and internationally as a result.

The Bottom Line

- ▶ Globalization has impacted nearly every aspect of modern life and continues to be a growing force in the global economy.
- ▶ While there are a few drawbacks to globalization, most economists agree that it's a force that's both unstoppable and net beneficial to the world economy.
- ▶ There have always been periods of protectionism and nationalism in the past, but globalization continues to be the most widely accepted solution to ensuring consistent economic growth around the world.